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Chief Executive

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Dear

**Tax Incremental Finance (“TIF”) Administration Pilot Scheme – Selection of Potential Pilot projects**

The purpose of this letter is to outline the process for selecting up to three pilot projects under the Tax Incremental Financing (TIF) scheme.

**Background**

The Scottish Government and the Scottish Futures Trust (“SFT”) have together developed an innovative approach to delivering economic growth by enabling Local Authorities to fund public infrastructure that will unlock regeneration and growth which might otherwise be unaffordable to a Local Authority or undeliverable through the private sector. This model is referred to as Tax Incremental Financing (“TIF”).

TIF seeks to capture locally generated, incremental public sector revenues, primarily in the form of non-domestic rates or “NDR”, that would not have arisen were it not for the delivery of “enabling” infrastructure investment that will unlock private sector investment, leading to sustainable economic growth. The key principle is that the public sector would raise finance for such enabling projects by pledging to meet debt repayments from future incremental revenues and other income created by resultant development by the public and private sectors.

The use of TIF will normally be predicated on a ‘but-for-test’ i.e. but for TIF the anticipated outcomes, from a regeneration and economic perspective, would not occur or not occur in the timeframes which TIF would enable. A TIF project must therefore demonstrate, if it is to be taken forward, the following:

* that the enabling infrastructure will unlock regeneration and sustainable economic growth;
* that it will generate additional (or incremental) public sector revenues (net of a displacement effect), noting that incremental revenues are deemed to be newly generated revenues and not an uplift in existing NDR; and
* that it is capable of repaying, over an agreed timescale, the financing requirements of the enabling infrastructure.

In support of the initiative, Scottish Ministers approved the TIF Administration Pilot Scheme at the end of 2010 and put in place Regulations to support it. The Pilot Scheme enables up to six Local Authorities to capture incremental NDR income arising as a result of a TIF project enabling public sector infrastructure works (“TIF Assets”). Local Authorities selected for a TIF pilot project will, therefore, have the ability to capture incremental NDRs under the Non-Domestic Rate Contributions (Scotland) Regulations 1996, as amended by the 2010 Regulations. The 2010 Regulations, which set out how the additional is retained by a participating authority, can be accessed via the following link: <http://www.legislation.gov.uk/ssi/2010/391/contents/made>.

SFT’s TIF Guidance paper is attached for your information. This and further background information can be found on SFT’s website: <http://www.scottishfuturestrust.org.uk/a.asp?a=104>.

SFT is working closely with the Scottish Government to identify suitable TIF pilot projects and to this end has been working with Local Authorities on three pilot projects. One of these TIF pilot projects has received full approval to proceed and one pilot project has approval in principle. Work on the business case for the other project continues to progress. This potentially leaves up to three remaining pilot projects to be identified. It is SFT’s and the Scottish Government’s intention to select up to a further three potential pilot projects to proceed to business case development in the current financial year (2011/12), and this letter outlines the process for achieving this. The basis of this process is to allow SFT and Scottish Government to identify TIF pilot projects which will:

* fulfil the Scottish Government’s policy objectives in relation to the delivery of regeneration and economic growth in Scotland, utilising sustainable forms of financing to do so;
* allow the assessment of the likely success of the TIF model and aid Scottish Government’s decision on whether to enact a general TIF scheme in Scotland; and
* identify projects which can be started shortly and which will stimulate economic growth and regeneration in Scotland.

**Identification of potential TIF Pilot Scheme Projects (“TPSP”)**

Following discussions between the Scottish Government and SFT, a process for identifying remaining pilot projects was agreed. This process enables SFT and the Scottish Government to assess the relative merits of a Local Authority’s TIF proposal and, as such, specific criteria have been established against which potential TPSP proposals will be assessed (refer to the attached TPSP Response Template for further detail) with the aim of identifying the remaining pilot projects.

**TPSP Submissions**

Should your Local Authority have a project which you would like to develop as a potential TIF pilot project, SFT would encourage a submission in the format contained within the attached TPSP Response Template covering the following points:

1. Project Background: an outline of the proposed project. It has been agreed that further pilots must be of a primarily non-retail led nature. It should also be noted that of the three remaining pilot projects:

* one project should be below £20m; and
* one should have a renewables focus.

Preference will be given to projects which satisfy these criteria. In selecting three pilot projects, SFT will seek, if possible, to identify at least one project that meets the characteristics outlined above.

1. An outline of likely private sector involvement and potential economic and regeneration impacts of the project, including job creation and other social benefits.
2. Evidence of consideration of the financial viability of the project, particularly identification of incremental NDR creation and the displacement impact.
3. Key risks associated with the project and identification of potential mitigants; and
4. High level timescales (in terms of business case development, enabling infrastructure and private sector investment).

Further detail of what information may be expected for each of these points in contained in the attached TPSP Response Template.

Please submit all TIF TPSP proposals to the following mailbox: *TIF@scottishfuturestrust.org.uk* by **noon on 19th August 2011**.

Further points to note:

* External consultants are not expected to be required for the purpose of this TPSP submission.
* Only one pilot project will be approved in any one Local Authority area. No further pilot projects will be granted to Local Authorities with an existing TIF project approved or under development.
* Reference should be made to SFT’s TIF Guidance when preparing submissions for consideration (a copy of this guidance is attached and can also be found on SFT’s website).

**SFT Support**

SFT will provide Local Authorities the opportunity to learn more about TIF and to discuss the pilot project identification process at one of three TIF industry workshops. SFT propose holding these workshops at the following locations on the following dates (confirmation of the final date and further detail in relation to the sessions will be provided in the near future):

* Aberdeen (19th July 2011)
* Glasgow (20th July 2011)
* Edinburgh (21st July 2011)

Local Authorities should contact SFT on mailbox *TIF@scottishfuturestrust.org.uk* to register interest, stating location preference. Notes of interest should be registered by **noon on Wednesday 6th July 2011.**

SFT will also offer ongoing support to any Local Authority who would like to discuss TIF or the process detailed in this letter further and Local Authorities should contact a member of SFT via the contact details contained in Appendix 1, should this be of interest.

**Evaluation of TPSP Responses**

Upon receipt, TPSP proposals will be scored and assessed by two SFT representatives and two Scottish Government representatives. Results will be collated and a score agreed by the four reviewers. The three proposals with the highest scores will be recommended to Scottish Ministers for progression to a full TIF business case. SFT and the Scottish Government will endeavour to communicate the outcome of this process by mid September 2011*.* The three selected Local Authorities will then be expected to commence the preparation of their TIF business case from this point forward.

SFT will continue to provide support through the business case development stage. It should, however, be noted that SFT and Scottish Government reserve the right to ‘de-select’ any project should it not be progressing as expected, and invite others to join the process. Final approval for TIF pilots rests with Scottish Ministers and will depend upon developing a viable case which is capable of acceptance by Ministers.

Please note that we expect there to be more demand than we will be able to meet at this stage. Local Authorities who are interested in the TIF model, but do not feel that they have a TIF project which is ready to be submitted for consideration in the timeframes outlined in this letter, or are unsuccessful at this stage in being chosen as a potential TIF pilot project, should note that following the pilot process a more general scheme may be enacted. The need for such general legislation will be informed by the level of response to this letter and through further discussion with Local Authorities.

Yours sincerely

Peter Reekie

Director of Finance & Structures

Scottish Futures Trust

**APPENDIX 1**

**SFT TIF CONTACT DETAILS**

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